

Town of Hertford
Financial Statements
June 30, 2019




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Certified Public Accountants



**Town of Hertford
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June 30, 2019**

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
The Board of Commissioners
Town of Hertford, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Hertford, North Carolina, as of and for the year then ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Hertford's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Hertford ABC Board, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Hertford ABC Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Hertford's ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order

to design audit procedures that are appropriate in the circumstances including, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the Town of Hertford, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 11, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 53 and 54, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 55 and 56, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Hertford's basic financial statements. The combining and individual fund financial statements and schedules, budgetary schedules and other schedules are

presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial schedules, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, the combining and individual fund financial statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jeff Best, CPA, PLLC
Belhaven, North Carolina
January 12, 2020

Town of Hertford Management's Discussion and Analysis

As management of the Town of Hertford, we offer readers of the Town of Hertford's financial statements this narrative overview and analysis of the financial activities of the Town of Hertford for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

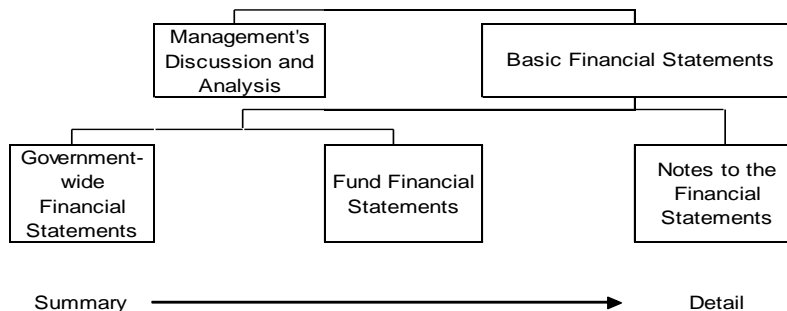
- The assets and deferred outflows of resources of the Town of Hertford exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,208,518 (*net position*).
- The government's total net position decreased by \$188,053, due to a large decrease in business-type activities and a modest increase in governmental activities.
- As of the close of the current fiscal year, the Town of Hertford's governmental funds reported combined ending fund balances of \$2,027,305, with a net change of \$38,608 in fund balance. Approximately 26.90 percent of this total amount, or \$545,444, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,481,861 or 86.81% of total general fund expenditures for the fiscal year.
- The Town of Hertford's total debt decreased by \$497,796 (5.69%) during the current fiscal year. The key factor in this decrease was due to principal payments on long-term debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Town of Hertford's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Hertford.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the Government-wide Financial Statements. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits 3 through 9) are Fund Financial Statements. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, supplemental information is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Government-wide financial statements. The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town financial status as a whole.

The two government-wide statements report the Town's net position and how it has changed. Net position is the difference between the Town's total assets and deferred outflows and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, transportation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer and electric services offered by the Town of Hertford. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund financial statements. The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Hertford, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as

Town of Hertford Management's Discussion and Analysis

the General Statutes or the Town's budget ordinance. All of the funds of the Town of Hertford can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Hertford adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. Town of Hertford has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Hertford uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 23-52 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Hertford's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 53 of this report.

Town of Hertford Management's Discussion and Analysis

Interdependence with Other Entities: The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

The Town of Hertford's Net Position

Figure 2

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 2,142,231	\$ 2,083,127	\$ 2,405,191	\$ 2,367,401	\$ 4,547,422	\$ 4,450,528
Capital assets	1,739,382	1,820,756	12,871,485	13,592,576	14,610,867	15,413,332
Deferred outflows of assets	169,743	141,854	116,220	74,990	285,963	216,844
Total assets and deferred outflows of resources	4,051,356	4,045,737	15,392,896	16,034,967	19,444,252	20,080,704
Other liabilities	101,473	424,973	731,069	885,023	832,542	1,309,996
Long-term liabilities	923,201	741,215	7,359,448	7,610,772	8,282,649	8,351,987
Deferred inflows of resources	114,462	15,130	6,081	7,020	120,543	22,150
Total liabilities and deferred inflows of resources	1,139,136	1,181,318	8,096,598	8,502,815	9,235,734	9,684,133
Net position:						
Net investment in capital assets	1,026,982	1,039,289	5,275,868	5,604,275	6,302,850	6,643,564
Restricted	545,444	512,947	-	-	545,444	512,947
Unrestricted	1,339,794	1,312,183	2,020,430	1,927,877	3,360,224	3,240,060
Total net position	\$ 2,912,220	\$ 2,864,419	\$ 7,296,298	\$ 7,532,152	\$ 10,208,518	\$ 10,396,571

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Hertford exceeded liabilities and deferred inflows by \$10,208,518 as of June 30, 2019. The Town net position decreased by \$188,053 for the fiscal year ended June 30, 2019. However, the largest portion, 61.75%, reflects the Town net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Hertford uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Hertford's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Hertford's net position, \$545,444 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,360,226 is unrestricted.

Town of Hertford Management's Discussion and Analysis

One particular aspect of the Town's financial operations influenced the total unrestricted governmental net position:

- The tax collection percentage of 95.06% has decreased over last year's collection rate of 94.51%. The statewide average is 98.78% but the Town's current rate is comparable to other small towns.

Town of Hertford Changes in Net Position

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 265,783	\$ 310,084	\$ 4,468,738	\$ 4,439,124	\$ 4,734,521	\$ 4,749,208
Operating grants and contributions	147,751	143,808	-	-	147,751	143,808
Capital grants and contributions	-	107,200	97,167	159,879	97,167	267,079
General revenues:						
Property taxes	604,017	596,422	-	-	604,017	596,422
Other taxes	635,467	608,772	-	-	635,467	608,772
Unrestricted investment earnings	2,241	-	59	11	2,300	11
Miscellaneous	11,800	11,178	5,551	5,128	17,351	16,306
Total revenues	1,667,059	1,777,464	4,571,515	4,604,142	6,238,574	6,381,606
Expenses:						
General government	332,787	347,235	-	-	332,787	347,235
Public safety	762,495	848,196	-	-	762,495	848,196
Transportation	408,518	538,290	-	-	408,518	538,290
Economic and physical development	29,417	29,386	-	-	29,417	29,386
Environmental protection	142,707	138,759	-	-	142,707	138,759
Interest on long-term debt	27,334	28,947	-	-	27,334	28,947
Electric	-	-	2,929,281	2,885,146	2,929,281	2,885,146
Water and Sewer	-	-	1,794,088	1,591,367	1,794,088	1,591,367
Total expenses	1,703,258	1,930,813	4,723,369	4,476,513	6,426,627	6,407,326
Increase (decrease) in net position before transfers	(36,199)	(153,349)	(151,854)	127,629	(188,053)	(25,720)
Transfers	84,000	84,000	(84,000)	(84,000)	-	-
Increase (decrease) in net position	47,801	(69,349)	(235,854)	43,629	(188,053)	(25,720)
Net position, July 1	2,864,419	2,933,768	7,532,152	7,488,523	10,396,571	10,422,291
Net position, June 30	\$ 2,912,220	\$ 2,864,419	\$ 7,296,298	\$ 7,532,152	\$ 10,208,518	\$ 10,396,571

Governmental activities: Governmental activities increased the Town net position by \$47,801, after transfers. Key elements of this increase are as follows:

- Capital grants and revenues decreased significantly from the prior year due to a grant and loan from the USDA to purchase public works vehicles for the fiscal year ended June 30, 2018 that was not received in the current year.
- The Town used Powell Bill funds from prior years to continue a patching and paving program.
- Town staff continues to be proactive and conservative in spending due to the slow economic turn-around in the region.

Town of Hertford Management's Discussion and Analysis

- Expenditures were less for the current year because of a reduction in salaries in the police department. When fully staffed, the Town has ten police officers, but during this fiscal year there were only two because of a transition stage in the department.

Business-type activities: Business-type activities decreased the Town of Hertford's net assets by \$235,834, after transfers. The key elements of this decrease are as follows:

- Expenditures were higher than in the prior year because of aging equipment which required additional repair and maintenance.

Financial Analysis of the Town's Funds

As noted earlier, the Town of Hertford uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the Town of Hertford's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Hertford's financing requirements.

The general fund is the chief operating fund of the Town of Hertford. At the end of the current fiscal year, Town of Hertford's unassigned fund balance in the general fund was \$1,481,861, while total fund balance reached \$2,027,305. The Governing Body of Town of Hertford has determined that the Town should maintain an unassigned fund balance of 20% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an unassigned fund balance of 86.81% of general fund expenditures, while total fund balance represents 118.76% of the same amount.

At June 30, 2019, the governmental funds of Town of Hertford reported a combined fund balance of \$2,027,305, a 1.90% increase over last year.

General Fund Budgetary Highlights

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services.

Revenues were more than the budgeted amounts primarily due to unrestricted intergovernmental revenues.

Proprietary funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Electric Fund at the end of the fiscal year amounted to \$1,114,267, and those for the Water and Sewer Fund

Town of Hartford Management's Discussion and Analysis

amounted to \$903,163. The total change in net position for each fund was \$155,914 and \$(391,768) respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Hartford's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$14,610,867 (net of accumulated depreciation). These assets include land, buildings and systems, machinery and equipment, park facilities, vehicles, and construction in progress.

Town of Hartford's Capital Assets (Net of Depreciation)

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 407,205	\$ 407,205	\$ 379,893	\$ 379,893	\$ 787,098	\$ 787,098
Buildings and systems	221,689	235,115	12,434,305	13,182,683	12,655,994	13,417,798
Machinery and equipment	23,076	32,256	-	-	23,076	32,256
Improvements	569,915	596,219	-	-	569,915	596,219
Vehicles	509,697	549,961	-	-	509,697	549,961
Construction in progress	7,800	-	57,287	-	65,087	-
Total	\$ 1,739,382	\$ 1,820,756	\$ 12,871,485	\$ 13,562,576	\$ 14,610,867	\$ 15,383,332

Additional information on the Town capital assets can be found in Note II.A.4. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2019, the Town of Hartford had total debt outstanding of \$8,748,216.

Town of Hartford's Outstanding Debt

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment purchases	\$ 712,400	\$ 781,467	\$ 412,562	\$ 431,967	\$ 1,124,962	\$ 1,213,434
Compensated absences	18,363	39,553	17,967	22,467	36,330	62,020
Net pension liability (LGRS)	199,633	154,075	146,018	90,055	345,651	244,130
Net pension liability (LEO)	58,218	170,095	-	-	58,218	170,095
Revolving Loans	-	-	2,970,055	3,267,332	2,970,055	3,267,332
General obligation bonds	-	-	4,213,000	4,289,000	4,213,000	4,289,000
Total	\$ 988,614	\$ 1,145,190	\$ 7,759,602	\$ 8,100,821	\$ 8,748,216	\$ 9,246,011

The Town of Hartford's total debt decreased by \$497,795 (0.54%) during the past fiscal year, primarily due to principal payments on prior debt.

Town of Hertford Management's Discussion and Analysis

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Hertford is \$9,304,264.

Additional information regarding the Town of Hertford's long-term debt can be found in Note II.B.6., beginning on page 46 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town:

- Occupancy rates on office and retail space have been level from year to year, with some turnover in businesses. The projected trend looks favorable with the addition of an assisted living facility, a dialysis medical facility, a steel manufacturer and many retail stores and restaurants opening.
- The population has been stable and will trend stable for the next year, with very small increases to the Census Certified population. We expect potential growth.
- The Perquimans Commerce Center, which is located within the Town limits, is attracting commercial growth. Several new businesses have recently shown interest in siting at the Commerce Center. Economic Developers with Electricities continue to actively market the Marine Commerce Center portion of the park at trade shows.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: This year's budget was projected to be very similar to last year. The Town Management and Staff have made a concentrated effort to reduce expenditures.

Business – type Activities: The water and sewer rates are set to remain stable for the coming year, with no adjustment projected.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Hertford, Post Office Box 32, Hertford, NC 27944. You can also call (252) 426-1969, visit the Town website at townofhertfordnc.com or send an email to the Town Manager at manager@townofhertfordnc.com.

Town of Hertford
Statement of Net Position
June 30, 2019
Exhibit 1

	Primary Government			Town of Hertford ABC Board
	Governmental Activities	Business- type Activities	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 1,436,647	\$ 1,370,028	\$ 2,806,675	\$ 100,325
Taxes receivables (net)	78,576	-	78,576	-
Receivables (net)	9,901	589,468	599,369	-
Internal balances	(69,950)	69,950	-	-
Due from other governments	212,437	-	212,437	-
Due from component unit	135,379	-	135,379	-
Inventories	-	-	-	150,605
Prepaid items	-	-	-	3,943
Restricted cash and cash equivalents	339,241	135,745	474,986	-
Total current assets	2,142,231	2,165,191	4,307,422	254,873
Noncurrent assets:				
Note receivable - Winfall settlement	-	240,000	240,000	-
Capital assets (Note 3):				
Land and construction in progress	407,205	437,180	844,385	5,472
Other capital assets, net of depreciation	1,332,177	12,434,305	13,766,482	161,805
Total capital assets	1,739,382	12,871,485	14,610,867	167,277
Total noncurrent assets	1,739,382	13,111,485	14,850,867	167,277
Total assets	3,881,613	15,276,676	19,158,289	422,150
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	169,743	116,220	285,963	21,547
Total deferred outflows of resources	169,743	116,220	285,963	21,547
LIABILITIES				
Current liabilities:				
Accounts payable and accrued liabilities	36,060	195,170	231,230	87,875
Due to primary government	-	-	-	135,379
Current portion of long-term liabilities	65,413	400,154	465,567	13,627
Customer deposits	-	135,745	135,745	-
Total current liabilities	101,473	731,069	832,542	236,881
Long-term liabilities:				
Due in more than one year	923,201	7,359,448	8,282,649	129,788
Total liabilities	1,024,674	8,090,517	9,115,191	366,669
DEFERRED INFLOWS OF RESOURCES				
Prepaid taxes	290	-	290	-
Pension deferrals	114,172	6,081	120,253	60
Total deferred inflows of resources	114,462	6,081	120,543	60
NET POSITION				
Net investment in capital assets	1,026,982	5,275,868	6,302,850	35,486
Restricted for:				
Stabilization by State Statute	287,477	-	287,477	-
Streets - Powell Bill	257,967	-	257,967	-
Other functions	-	-	-	34,192
Unrestricted	1,339,794	2,020,430	3,360,224	7,290
Total net position	\$ 2,912,220	\$ 7,296,298	\$ 10,208,518	\$ 76,968

The accompanying notes are an integral part of these financial statements.

**Town of Hertford
Statement of Activities
For the Fiscal Year Ended June 30, 2019
Exhibit 2**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			Town of Hertford ABC Board
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business-type Activities		
Primary government:								
Governmental Activities:								
General government	\$ 332,787	\$ 265,783	\$ -	\$ -	\$ (67,004)	\$ -	\$ (67,004)	\$ -
Public safety	762,495	-	90,750	-	(671,745)	-	(671,745)	-
Transportation	408,518	-	57,001	-	(351,517)	-	(351,517)	-
Economic and physical development	29,417	-	-	-	(29,417)	-	(29,417)	-
Environmental protection	142,707	-	-	-	(142,707)	-	(142,707)	-
Interest on long-term debt	27,334	-	-	-	(27,334)	-	(27,334)	-
Total governmental activities (See Note 1)	1,703,258	265,783	147,751	-	(1,289,724)	-	(1,289,724)	-
Business-type activities:								
Electric	2,929,281	3,169,178	-	-	-	239,897	239,897	-
Water and sewer	1,794,088	1,299,560	-	97,167	-	(397,361)	(397,361)	-
Total business-type activities	4,723,369	4,468,738	-	97,167	-	(157,464)	(157,464)	-
Total primary government	\$ 6,426,627	\$ 4,734,521	\$ 147,751	\$ 97,167	(1,289,724)	(157,464)	(1,447,188)	-
Component Unit:								
ABC Board	\$ 840,789	\$ 888,987	\$ -	\$ -	-	-	-	48,198
Total component unit	\$ 840,789	\$ 888,987	\$ -	\$ -	-	-	-	48,198

General revenues:				
Taxes:				
Property taxes, levied for general purpose	604,017	-	604,017	-
Other taxes	635,467	-	635,467	-
Unrestricted investment earnings	2,241	59	2,300	-
Miscellaneous	11,800	5,551	17,351	834
Profit distributions	-	-	-	(49,032)
Total general revenues not including transfers	1,253,525	5,610	1,259,135	(48,198)
Transfers	84,000	(84,000)	-	-
Total general revenues and transfers	1,337,525	(78,390)	1,259,135	(48,198)
Change in net position	47,801	(235,854)	(188,053)	-
Net position, beginning	2,864,419	7,532,152	10,396,571	76,968
Net position, ending	\$ 2,912,220	\$ 7,296,298	\$ 10,208,518	\$ 76,968

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Balance Sheet – Governmental Funds
June 30, 2019
Exhibit 3

	Major Fund General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 1,436,647	\$ 1,436,647
Receivables (net):		
Taxes	78,576	78,576
Accounts	9,901	9,901
Due from other governments	212,437	212,437
Due from other funds	(69,950)	(69,950)
Due from component unit	135,379	135,379
Restricted cash and cash equivalents	339,241	339,241
Total assets	2,142,231	2,142,231
LIABILITIES		
Accounts payable and accrued liabilities	36,060	36,060
Total liabilities	36,060	36,060
DEFERRED INFLOWS OF RESOURCES		
Prepaid taxes	290	290
Property tax receivable	78,576	78,576
Total deferred inflows of resources	78,866	78,866
FUND BALANCES		
Restricted		
Stabilization by State Statute	287,477	287,477
Streets - Powell Bill	257,967	257,967
Unassigned	1,481,861	1,481,861
Total fund balances	2,027,305	2,027,305
Total liabilities, deferred inflow of resources, and fund balances	\$ 2,142,231	

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Reconciliation of the Balance Sheet to the
Statement of Net Position – Governmental Funds
June 30, 2019
Exhibit 3

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total fund balance - governmental fund	\$ 2,027,305
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	4,724,072
Accumulated depreciation	(2,984,690)
<u> Capital assets (net)</u>	<u>1,739,382</u>
Net pension liability - LGERS	(199,633)
Net pension liability - LEOSSA	(58,218)
Deferred outflows of resources related to pensions are not reported in the funds	169,743
Earned revenues considered deferred inflows of resources in fund statements	78,576
Deferred inflows of resources related to pensions are not reported in the funds	(114,172)
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	(730,763)
<u>Net position of governmental activities</u>	<u>\$ 2,912,220</u>

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Statement of Revenues, Expenditures, and Changes
in Fund Balance - Governmental Fund
For the Fiscal Year Ended June 30, 2019
Exhibit 4

	Major Fund General Fund	Total Governmental Funds
REVENUES		
Ad Valorem taxes	\$ 598,582	\$ 598,582
Other taxes and licenses	31,385	31,385
Unrestricted intergovernmental	643,729	643,729
Restricted intergovernmental	147,751	147,751
Sales and services	225,258	225,258
Investment earnings	2,241	2,241
Miscellaneous	12,678	12,678
Total revenues	1,661,624	1,661,624
EXPENDITURES		
Current:		
General government	349,846	349,846
Public safety	753,734	753,734
Transportation	343,874	343,874
Economic and physical development	20,454	20,454
Environmental protection	142,707	142,707
Debt Service:		
Principal	69,067	69,067
Interest	27,334	27,334
Total expenditures	1,707,016	1,707,016
Excess (deficiency) of revenues over expenditures	(45,392)	(45,392)
OTHER FINANCING SOURCES (USES)		
Transfers (to) from other funds	84,000	84,000
Total other financing sources (uses)	84,000	84,000
Net change in fund balance	38,608	38,608
Fund balances, beginning	1,988,697	1,988,697
Fund balances, ending	\$ 2,027,305	\$ 2,027,305

The accompanying notes are an integral part of these financial statements.

Town of Hertford

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
in Fund Balance to the Statement of Activities - Governmental Fund
For the Fiscal Year Ended June 30, 2019**

Exhibit 5

Amounts reported for governmental activities in the Statement of Activities are different because:

Net changes in fund balances - total governmental funds	\$	38,608
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.</p>		
Capital outlay expenditures which were capitalized		154,608
Depreciation expense for governmental assets		(232,812)
Cost of capital assets disposed of during the year, not recognized on the modified accrual basis		(3,170)
Total		(81,374)
<p>Contributions to the pension plans in the current fiscal year are not included on the Statement of Activities.</p>		
		41,182
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		5,435
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		69,067
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences		21,190
Pension expense		(46,307)
Total		(25,117)
Total changes in net position of governmental activities	\$	47,801

The accompanying notes are an integral part of these financial statements.

Town of Hertford

**General Fund Statement of Revenues, Expenditures, and Change
in Fund Balance – Budget to Actual
For the Fiscal Year Ended June 30, 2019
Exhibit 6**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Ad Valorem taxes	\$ 591,048	\$ 591,048	\$ 598,582	\$ 7,534
Other taxes and licenses	22,000	22,000	31,385	9,385
Unrestricted intergovernmental	577,037	577,037	643,729	66,692
Restricted intergovernmental	149,250	149,250	147,751	(1,499)
Sales and services	204,453	232,204	225,258	(6,946)
Investment earnings	1,000	1,000	2,241	1,241
Miscellaneous	7,800	11,911	12,678	767
Total revenues	1,552,588	1,584,450	1,661,624	77,174
EXPENDITURES				
Current:				
General government	340,992	395,635	349,846	45,789
Public safety	836,178	825,763	753,734	72,029
Transportation	329,027	367,168	343,874	23,294
Economic and physical development	19,851	20,760	20,454	306
Environmental protection	145,453	145,453	142,707	2,746
Debt Service:				
Principal	72,099	30,837	69,067	(38,230)
Interest	24,421	65,806	27,334	38,472
Total expenditures	1,768,021	1,851,422	1,707,016	144,406
Revenue over (under) expenditures	(215,433)	(266,972)	(45,392)	221,580
OTHER FINANCING SOURCES (USES)				
Transfers to (from) other funds	84,000	84,000	84,000	-
Total other financing sources (uses)	84,000	84,000	84,000	-
Fund balance appropriated	131,433	182,972	-	(182,972)
Net change in fund balance	\$ -	\$ -	38,608	\$ 38,608
Fund balances, beginning			1,988,697	
Fund balances, ending			\$ 2,027,305	

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Statement of Fund Net Position – Proprietary Funds
June 30, 2019
Exhibit 7

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 823,117	\$ 546,911	\$ 1,370,028
Accounts receivables (net)	389,029	200,439	589,468
Due to (from) other funds	115,636	(45,686)	69,950
Restricted cash and cash equivalents	135,745	-	135,745
Total current assets	1,463,527	701,664	2,165,191
Noncurrent assets:			
Note receivable - Winfall settlement	-	240,000	240,000
Capital assets:			
Land and other non-depreciable assets	-	437,180	437,180
Other capital assets (net)	528,704	11,905,601	12,434,305
Capital assets (net)	528,704	12,342,781	12,871,485
Total noncurrent assets	528,704	12,582,781	13,111,485
Total assets	\$ 1,992,231	\$ 13,284,445	\$ 15,276,676
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	58,720	57,500	116,220
Total deferred outflows of resources	58,720	57,500	116,220
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 184,917	\$ 10,253	\$ 195,170
Customer deposits	135,745	-	135,745
Compensated absences - current	2,618	1,874	4,492
Installment loan - current	9,692	9,692	19,384
Bonds payable - current	-	79,000	79,000
Revolving Loans	-	297,278	297,278
Total current liabilities	332,972	398,097	731,069
Noncurrent liabilities:			
Other noncurrent liabilities:			
Compensated absences - noncurrent	7,853	5,622	13,475
Net pension liability	73,775	72,243	146,018
Installment loan payable, net of current	196,589	196,589	393,178
Bonds payable, net of current	-	4,134,000	4,134,000
Revolving Loans, net of current	-	2,672,777	2,672,777
Total noncurrent liabilities	278,217	7,081,231	7,359,448
Total liabilities	611,189	7,479,328	8,090,517
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	3,072	3,009	6,081
Total deferred inflows of resources	3,072	3,009	6,081
Net Position			
Net investment in capital assets	322,423	4,953,445	5,275,868
Unrestricted	1,114,267	906,163	2,020,430
Total net position	\$ 1,436,690	\$ 5,859,608	\$ 7,296,298

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Statement of Revenues, Expenses, and Changes
in Fund Net Position – Proprietary Funds
For the Fiscal Year Ended June 30, 2019
Exhibit 8

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Operating revenues:			
Charges for services	\$ 3,139,697	\$ 1,215,744	\$ 4,355,441
Winfall charges	-	73,695	73,695
Water and sewer taps	-	10,121	10,121
Other operating revenues	29,481	-	29,481
Total operating revenues	3,169,178	1,299,560	4,468,738
Operating expenses:			
Salaries and employee benefits	272,353	269,995	542,348
Utilities	2,255,852	166,192	2,422,044
Supplies and other expenses	322,271	402,581	724,852
Depreciation	69,285	729,060	798,345
Total operating expenses	2,919,761	1,567,828	4,487,589
Operating income (loss)	249,417	(268,268)	(18,851)
Nonoperating revenues (expenses):			
NCDOT reimbursement	-	97,167	97,167
Miscellaneous revenues	-	5,551	5,551
Interest on investments	17	42	59
Interest and fees	(9,520)	(226,260)	(235,780)
Total nonoperating revenues (expenses)	(9,503)	(123,500)	(133,003)
Income (loss) before transfers	239,914	(391,768)	(151,854)
Transfers to other funds	(84,000)	-	(84,000)
Change in net position	155,914	(391,768)	(235,854)
Total net position, beginning	1,280,776	6,251,376	7,532,152
Total net position, ending	\$ 1,436,690	\$ 5,859,608	\$ 7,296,298

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2019
Exhibit 9

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 3,153,572	\$ 1,316,084	\$ 4,469,656
Cash paid for goods and services	(2,633,286)	(576,264)	(3,209,550)
Cash paid to employees for services	(271,585)	(261,469)	(533,054)
Customer deposits received (net)	(1,403)	-	(1,403)
Other operating revenues	29,481	-	29,481
Net cash provided (used) by operating activities	276,779	478,351	755,130
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers to other funds	(84,000)	-	(84,000)
Net cash provided (used) by noncapital financing activities	(84,000)	-	(84,000)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Principal paid on long-term borrowings	(9,703)	(382,980)	(392,683)
Interest paid on long-term borrowings	(9,521)	(226,260)	(235,781)
Acquisition and construction of capital assets	(56,645)	(20,609)	(77,254)
Capital contributions	-	102,718	102,718
Net cash provided (used) by capital and related financing activities	(75,869)	(527,131)	(603,000)
CASH FLOWS FROM INVESTING ACTIVITIES			
Principal received on note receivable	-	15,000	15,000
Interest on investments	17	42	59
Net cash provided (used) by investing activities	17	15,042	15,059
Net increase (decrease) in cash and cash equivalents	116,927	(33,738)	83,189
Balances, beginning	841,935	580,649	1,422,584
Balances, ending	\$ 958,862	\$ 546,911	\$ 1,505,773

The accompanying notes are an integral part of these financial statements.

Town of Hertford
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2019
Exhibit 9

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ 249,417	\$ (268,268)	\$ (18,851)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	69,285	729,060	798,345
Change in assets and deferred outflows, and liabilities and deferred inflows of resources			
(Increase) decrease in accounts receivable	13,875	16,524	30,399
(Increase) decrease in deferred outflows of resources - pensions	(14,851)	(26,379)	(41,230)
Increase (decrease) in net pension liability	21,093	34,870	55,963
Increase (decrease) in deferred inflows of resources - pensions	(1,035)	96	(939)
Increase (decrease) in accounts payable and accrued liabilities	(55,163)	(7,491)	(62,654)
Increase (decrease) in customer deposits	(1,403)	-	(1,403)
Increase (decrease) in compensated absences	(4,439)	(61)	(4,500)
Total adjustments	27,362	746,619	773,981
Net cash provided (used) by operating activities	\$ 276,779	\$ 478,351	\$ 755,130

The accompanying notes are an integral part of these financial statements.

Town of Hertford Notes to the Financial Statements

NOTE I – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Hertford and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Hertford is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Town of Hertford ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Hertford ABC Board, US 17 South, Hertford, NC 27944.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Town of Hertford Notes to the Financial Statements

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies, result from non-exchange transactions. Other non-operating revenues are ancillary activities such as investment earnings.

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town reports the following major enterprise funds:

Electric Fund. This fund is used to account for the Town's electric fund operations.

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

Golden Lead Foundation Grant Fund. This fund is used to account for grant funds that are restricted for a particular purpose. This fund is combined with the water and sewer fund for reporting purposes.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, all funds of the Town are maintained during the year using the modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Town of Hertford Notes to the Financial Statements

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Hertford because the tax is levied by Perquiman's County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a



Town of Hertford Notes to the Financial Statements

combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Golden Leaf Foundation Grant FY 2018. The enterprise fund project is consolidated with the Water and Sewer Fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity

1. Deposits and Investments

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and the ABC Board's investments are reported at fair. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool is measured at fair value. The NCCMT- Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

Town of Hertford
Notes to the Financial Statements

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

The Town is required by the USDA to set aside ten percent (10%) of the current year's note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2019, the Town has accumulated \$81,274 in this account and it is shown as restricted assets for 'USDA Reserve'. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

<u>Town of Hertford Restricted Cash</u>	
Governmental Activities:	
General Fund	
USDA Reserve	\$ 81,274
Streets - Powell Bill	257,967
Total governmental activities	339,241
Business-type Activities:	
Electric Fund	
Customer Deposits	135,745
Total business-type activities	135,745
Total restricted cash	\$ 474,986

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated by analyzing the percentage of receivables that were written off in prior years.

Town of Hertford
Notes to the Financial Statements

6. Inventory and Prepaid Items

The inventories of the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventories of the ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain ABC Board payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in the government-wide statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2016 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2016 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Infrastructure	50 years
Buildings	30 years
Other improvements	25 years
Equipment and furniture	10 years
Automobiles	6 years
Computer	3 years

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

Buildings	20 years
Equipment and furniture	10 years
Automobiles	3-5 years
Computer	3 years

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of*

Town of Hertford Notes to the Financial Statements

Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category- prepaid taxes, property taxes receivable, and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received or not, are reported as debt service expenditures.

10. Compensated Absences

The vacation policies of the Town and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds and the ABC Board, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

Both the Town and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

In the governmental fund financial statements, fund balance is composed of two classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balance as follows:

Nonspendable Fund Balance – This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. The Town does not have any nonspendable fund balances for the governmental fund types.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

Restricted for Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for Streets – Powell Bill – portion of fund balance that is restricted by revenue source for street construction and maintenance expenditures. This amount represents the balance of the total unexpended Powell Bill funds.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Hertford's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end

Town of Hertford Notes to the Financial Statements

of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. The Town does not have any committed fund balances for the governmental fund types.

Assigned fund balance – portion of fund balance that Town of Hertford intends to use for specific purposes. The Town does not have any assigned fund balances for the governmental fund types.

Unassigned fund balance – the portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other funds.

The Town of Hertford has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-town funds, town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

The Town of Hertford has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures. Any portion of the general fund balance in excess 20% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

12. Defined Benefit Cost-Sharing Plan

For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Hertford's employer contributions are recognized when due and the Town of Hertford has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

13. Subsequent Events – Date of Management Evaluation

Management has evaluated subsequent events through January 12, 2020, the date on which the financial statements were available to be issued.

NOTE II – DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2019, the Town's deposits had a carrying amount of \$3,280,213, and a bank balance of \$3,381,710. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$99,875 and the bank balance was \$142,109. All of the bank balance was covered by federal depository insurance. At June 30, 2019, the Town's petty cash fund totaled \$550m and the ABC Board's petty cash fund totaled \$450.

2. Investments

At June 30, 2019, the Town of Hertford had \$898 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAA by Standard and Poor's. The Town has no formal policy regarding credit risk of its investments.

Town of Hertford
Notes to the Financial Statements

3. Receivables – Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 35,850
Accounts receivable	2,682
Total General Fund	38,532
Enterprise Funds	
Electric Fund - accounts receivable	23,217
Water and Sewer Fund - accounts receivable	28,029
Total Enterprise Funds	51,246
Total	\$ 89,778

4. Capital Assets

Primary Government. Capital asset activity for the Primary Government for the year ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 407,205	\$ -	\$ -	\$ 407,205
Construction in progress	-	7,800	-	7,800
Total capital assets not being depreciated	407,205	7,800	-	415,005
Capital assets being depreciated:				
Buildings	1,011,287	-	-	1,011,287
Equipment	377,002	-	6,559	370,443
Other Improvements	1,164,406	-	-	1,164,406
Vehicles and motorized equipment	1,637,089	146,808	20,966	1,762,931
Total capital assets being depreciated	4,189,784	146,808	27,525	4,309,067
Less accumulated depreciation for:				
Buildings	776,172	13,426	-	789,598
Equipment	344,746	6,010	3,389	347,367
Other Improvements	568,187	47,270	20,966	594,491
Vehicles and motorized equipment	1,087,128	166,106	-	1,253,234
Total accumulated depreciation	2,776,233	232,812	24,355	2,984,690
Total capital assets being depreciated, net	1,413,551			1,324,377
Governmental activity capital assets, net	\$ 1,820,756			\$ 1,739,382

Town of Hertford
Notes to the Financial Statements

Depreciation expense was charged to functions / programs of the primary government as follows:

General government	\$ 6,806
Public safety	155,569
Transportation	61,474
Cultural and recreational	8,963
Total depreciation expense	\$ 232,812

	Beginning Balances	Increases	Decreases	Ending balances
Business-type activities				
<i>Electric fund</i>				
Capital assets being depreciated:				
Substation, lines, and other equipment	\$ 2,406,470	\$ -	\$ -	\$ 2,406,470
Equipment	286,052	-	-	286,052
Vehicles	192,928	56,646	31,363	218,211
Total capital assets being depreciated	2,885,450	56,646	31,363	2,910,733
Less accumulated depreciation for:				
Substation, lines, and other equipment	1,802,008	57,090	-	1,859,098
Equipment	349,171	10,851	-	360,022
Vehicles	192,928	1,344	31,363	162,909
Total accumulated depreciation	2,344,107	69,285	31,363	2,382,029
Total capital assets being depreciated, net	541,343			528,704
Electric fund capital assets, net	541,343			528,704
 Water and Sewer Fund				
Capital assets not being depreciated:				
Land	379,893	-	-	379,893
Construction in progress	30,000	27,287	-	57,287
Total capital assets not being depreciated	409,893	27,287	-	437,180
Capital assets being depreciated				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	22,451,868	-	-	22,451,868
Equipment	483,459	-	-	483,459
Vehicles	53,106	-	20,037	33,069
Total capital assets being depreciated	22,990,133	-	20,037	22,970,096
Less accumulated depreciation for:				
Building	1,700	-	-	1,700
Plant, distribution system, and other equipment	9,844,549	721,265	-	10,565,814
Equipment	449,438	7,795	-	457,233
Vehicles	53,106	-	13,358	39,748
Total accumulated depreciation	10,348,793	729,060	13,358	11,064,495
Total capital assets being depreciated, net	12,641,340			11,905,601
Water and sewer fund capital assets, net	13,051,233			12,342,781
Business-type activities capital assets, net	\$ 13,592,576			\$ 12,871,485

Town of Hertford
Notes to the Financial Statements

Discretely presented component units. Activity for the ABC Board for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 5,472	\$ -	\$ -	\$ 5,472
Total capital assets not being depreciated	5,472	-	-	5,472
Capital assets being depreciated:				
Buildings	36,310	-	-	36,310
Furniture and equipment	81,293	161,513	-	242,806
Leasehold improvements	11,871	-	-	11,871
Total capital assets being depreciated	129,474	161,513	-	290,987
Less accumulated depreciation for:				
Buildings	36,310	-	-	36,310
Furniture and equipment	64,013	16,988	-	81,001
Leasehold improvements	11,871	-	-	11,871
Total accumulated depreciation	112,194	16,988	-	129,182
ABC capital assets, net	<u>\$ 22,752</u>			<u>\$ 167,277</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Hertford and the ABC Board are participating employers in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financing Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to

Town of Hertford Notes to the Financial Statements

retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Hertford employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Hertford's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Hertford were \$71,303 for the year ended June 30, 2019.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Town reported a liability of \$345,650 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of

Town of Hertford Notes to the Financial Statements

December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018 (measurement date), the Town's proportion was .01457%, which was a decrease of .00141% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$95,153. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 53,326	\$ 1,789
Changes of assumptions	91,722	-
Net difference between projected and actual earnings on pension plan investments	47,448	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	11,315	12,606
Town contributions subsequent to the measurement date	71,303	-
Total	\$ 275,114	\$ 14,395

\$71,303 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:		
2020	\$	91,196
2021		58,702
2022		13,176
2023		26,342
2024		-
Thereafter		-
Total	\$	189,416

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Town of Hertford Notes to the Financial Statements

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100.0%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset, liability, and investment policy study for the North Carolina Retirement Systems,

Town of Hertford Notes to the Financial Statements

including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town’s proportionate share of the net pension liability to changes in the discount rate. The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 830,282	\$ 345,650	\$ (59,315)

Pension plan fiduciary net position. Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

b. Law Enforcement Officers Special Separation Allowance

The Town of Hertford administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Town of Hertford
Notes to the Financial Statements

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	7
Total	7

Summary of Significant Accounting Policies

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the criteria which are outlined in GASB Statement 73.

Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate is based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index.

Mortality rates are based on the MP-2015 Mortality tables with adjustments for mortality improvements.

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation

Town of Hertford
Notes to the Financial Statements

Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2019, the Town reported a total pension liability of \$58,218. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension revenue of \$6,143.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,169	\$ 101,221
Changes of assumptions	6,680	4,637
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 10,849	\$ 105,858

\$0 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	
2020	\$ (18,576)
2021	(18,576)
2022	(18,576)
2023	(18,245)
2024	(20,620)
Thereafter	(416)
Total	\$ (95,009)

\$0 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64% percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate

Town of Hertford
Notes to the Financial Statements

that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total Pension Liability	\$ 64,500	\$ 58,218	\$ 52,620

Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance

	2018
Beginning balance	\$ 170,095
Service cost	7,058
Interest on the total pension liability	5,375
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(2,926)
Differences between expected and actual experience in the measurement of the total pension liability	(121,384)
Other changes	-
Ending balance of the total pension liability	\$ 58,218

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the 5-year period ending December 31, 2014.

Total Expense, Liabilities, and Deferred Outflows and Inflows of Resources Related to Pensions

Following is information related to the proportionate share and pension expense for all pension plans:

Town of Hertford
Notes to the Financial Statements

	LGERs	LEOSSA	Total
Pension (revenue) expense	\$ 95,153	\$ (6,143)	\$ 89,010
Pension liability	345,650	58,218	403,868
Proportionate share of the net pension liability	0.01598%	N/A	
 Deferred Outflows of Resources			
Differences between expected and actual experience	53,326	4,169	57,495
Changes of assumptions	91,722	6,680	98,402
Net difference between projected and actual earnings on plan investments	47,448	-	47,448
Changes in proportion and differences between contributions and proportionate share of contributions	11,315	-	11,315
Benefit payments and administrative costs paid subsequent to the measurement date	71,303	-	71,303
 Deferred Inflows of Resources			
Differences between expected and actual experience	1,789	101,221	103,010
Changes of assumptions	-	4,637	4,637
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,606	-	12,606

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may also make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$15,395 which consisted of \$11,495 from the Town and \$3,900 from the law enforcement officers. No amounts were forfeited.



Town of Hertford Notes to the Financial Statements

d. Supplemental Retirement Income Plan for General Employees

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. The Town has elected to contribute each month an amount equal to 3.75% of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$36,195, which consisted of \$24,681 from the Town and \$11,514 from the employees.

2. Other Employment Benefit

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit will be a minimum of \$25,000 and will not exceed \$50,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Town of Hertford
Notes to the Financial Statements

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources at year-end is comprised of the following:

Source	Amount
Differences between expected and actual experience	\$ 57,495
Changes of assumptions	98,402
Contributions to pension plan subsequent to the measurement date	71,303
Changes in proportion and differences between Town contributions and proportionate share of contributions	11,315
Net difference between projected and actual earnings on pension plan investments	47,448
Total	\$ 285,963

Deferred inflows of resources at year-end is comprised of the following:

	Statement of Net Position	General Fund Balance Sheet
Prepaid taxes (General Fund)	\$ 290	\$ 290
Taxes receivables, less penalties (General Fund)	-	78,576
Differences between expected and actual experience	103,010	-
Changes of assumptions	4,637	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	12,606	-
Total	\$ 120,543	\$ 78,866

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, and worker's compensation coverage up to statutory limits. Employee health coverage up to a \$2 million lifetime limit is provided by Blue Cross & Blue Shield of North Carolina. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for worker's compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage

Town of Hertford Notes to the Financial Statements

in any of the past three fiscal years.

The Town carries flood insurance through the North Carolina League of Municipalities Interlocal Risk Financing Fund. This flood insurance covers all of the Town's buildings except one. The Town is seeking flood insurance coverage for this one building through the National Flood Insurance Plan.

In accordance with G.S.159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The town clerk is bonded for \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$30,000 per occurrence.

Town of Hertford ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has commercial property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage.

Claims have not exceeded coverage in any of the past three fiscal years and there have been no significant reduction in insurance coverage in the prior year.

5. Claims, Judgments and Contingent Liabilities

The Town is involved in legal and regulatory matters arising in the ordinary course of operations. While the ultimate outcome of these matters is not presently determinable, it is the opinion of management and the Town attorney that the resolution of outstanding matters will not have a material adverse effect on the financial position or results of operations of the Town.

6. Long-Term Obligations

A. Installment Purchase

Serviced by the General Fund, Electric Fund, and Water and Sewer Fund

In July 2002, the Town entered into an installment purchase contract to finance the purchase of a fire truck. The finance contract requires twenty annual payments of \$5,146, including interest. The interest rate is 4.75%. The balance at June 30, 2019 is \$18,329.

In October 2003, the Town entered into an installment purchase contract to finance the renovations of an ice plant. The finance contract requires annual payments of \$56,645, including interest, beginning September 2004. The interest rate is 4.25%. The debt will be repaid equally from the General Fund, the Electric Fund, and the Water and Sewer Fund. The balance at June 30, 2019 is \$618,843 (\$206,281 each fund).

In March 2008, the Town entered into an installment purchase contract to finance the purchase of a 2008 Freightliner Fire Truck. The finance contract requires 20 annual payments of \$10,632,

Town of Hertford Notes to the Financial Statements

including interest, beginning March 2009. The interest rate is 4.125%. The balance at June 30, 2019 is \$78,595.

In September 2016, the Town entered into a \$73,401 installment purchase contract to finance the purchase of three police vehicles. The finance contract requires four annual payments of \$19,970, including interest, beginning September 2017. The interest rate is 5.95%. The balance at June 30, 2019 is \$18,849.

In September 2016, the Town entered into a \$388,000 installment purchase contract to finance the purchase of an E-One Typhoon fire truck. The finance contract requires 20 annual payments of \$25,484, including interest, beginning September 2017. The interest rate is 2.750%. The balance at June 30, 2019 is \$357,965.

In December 2017, the Town entered into a \$37,200 installment purchase contract to finance the purchase of three Public Works vehicles. The finance contract requires 7 annual payments of \$6,028, including interest, beginning December 2018. The interest rate is 3.250%. The balance at June 30, 2019 is \$32,381.

The future minimum payments of the installment purchases as of June 30, 2019, including \$377,705 of interest, are as follows:

Year Ending	Governmental Activities		Business-type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30						
2020	\$ 60,822	\$ 25,320	\$ 19,385	\$ 18,379	\$ 80,207	\$ 43,699
2021	43,441	22,731	20,177	17,586	63,618	40,317
2022	45,069	21,102	21,103	16,661	66,172	37,763
2023	46,679	19,462	22,019	15,745	68,698	35,207
2024	43,261	17,764	22,975	14,789	66,236	32,553
2025-2029	204,211	66,157	130,655	58,161	334,866	124,318
2030-2034	196,475	32,655	176,249	27,171	372,724	59,826
2035-2039	72,442	4,022	-	-	72,442	4,022
Total	\$ 712,400	\$ 209,213	\$ 412,563	\$ 168,492	\$ 1,124,963	\$ 377,705

B. General Obligation Indebtedness

The Town's general obligation bonds issued to finance the construction of facilities utilized in the operations of the Water and Sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

Town of Hertford
Notes to the Financial Statements

Bonds payable at June 30, 2019 are comprised of the following individual issues:

\$2,961,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$104,500 to \$165,420 through June 2048, interest at 4.50%. Principal payments began in 2011.	\$ 2,613,000
\$1,063,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$32,318 to \$57,615 through June 2048, interest at 4.25%. Principal payments began in 2011.	933,000
\$772,000 2008 USDA-Water and Sewer serial bonds due in annual installments of \$22,005 to \$38,300 through June 2048, interest at 3.625%. Principal payments began in 2011.	667,000
	\$ 4,213,000

The future minimum payments of the general obligation indebtedness as of June 30, 2019, including \$3,174,469 of interest, are as follows:

Year Ending	General Obligation Indebtedness	
	Principal	Interest
2020	\$ 79,000	\$ 181,888
2021	82,000	178,534
2022	86,000	175,011
2023	89,000	171,356
2024	94,000	167,533
2025-2029	529,000	771,209
2030-2034	652,000	647,266
2035-2039	806,000	494,154
2040-2044	991,000	304,649
2045-2049	805,000	82,869
Total	\$ 4,213,000	\$ 3,174,469

C. Revolving Loans

The Town's revolving loans issued to finance the construction of facilities utilized in the operations of the Water and Sewer system are reported as long-term debt in the Water and Sewer Fund. All revolving loans are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

Town of Hertford
Notes to the Financial Statements

Revolving loans payable at June 30, 2019 are comprised of the following individual issues:

\$3,000,000 - 2008 Sewer revolving loan due in annual installments of \$150,000 through May 2028, interest at 0.0%. Payments began in 2009.	\$ 1,350,000
\$375,908 - 2009 Sewer revolving loan due in annual installments of \$18,796 through May 2030, interest at 0.0%. Principal payments began in 2011.	206,749
\$2,441,165 - 2008 Drinking Water revolving loan due in annual installments of \$124,622 to \$241,933 through May 2030, interest at 2.10%. Principal payments began in 2011.	1,342,641
\$128,482 - 2008 Drinking Water revolving loan due in annual installments of \$6,559 to \$12,733 through May 2030, interest at 2.10%. Principal payments began in 2011.	70,665
	\$ 2,970,055

The future minimum payments of the revolving loans as of June 30, 2019, including \$178,077 of interest, are as follows:

Year Ending	Revolving Loans	
June 30	Principal	Interest
2020	\$ 297,278	\$ 29,680
2021	297,278	26,981
2022	297,278	24,283
2023	297,278	21,585
2024	297,278	18,887
2025-2029	1,336,393	53,963
2030-2034	147,272	2,698
Total	\$ 2,970,055	\$ 178,077

At June 30, 2019, Town of Hertford, North Carolina had a legal debt margin of \$9,304,264.

Town of Hertford
Notes to the Financial Statements

D. Changes in Long-Term Liabilities

	Balance July 1, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 781,467	\$ -	\$ 69,067	\$ 712,400	\$ 60,822
Compensated absences	39,553	-	21,190	18,363	4,591
Net pension liability (LGERS)	154,075	45,558	-	199,633	-
Total pension liability (LEOSSA)	170,095	-	111,877	58,218	-
Governmental activity long-term liabilities	\$ 1,145,190	\$ 45,558	\$ 202,134	\$ 988,614	\$ 65,413
Business-type activities:					
<u>Water and Sewer Fund:</u>					
Installment purchases	\$ 215,984	\$ -	\$ 9,703	\$ 206,281	\$ 9,692
General obligation bonds	4,289,000	-	76,000	4,213,000	79,000
Revolving loans	3,267,332	-	297,277	2,970,055	297,278
Compensated absences	7,557	-	61	7,496	1,874
Net pension liability (LGERS)	37,373	34,870	-	72,243	-
Water and Sewer long-term liabilities	7,817,246	34,870	383,041	7,469,075	387,844
<u>Electric Fund</u>					
Installment purchases	215,984	-	9,703	206,281	9,692
Compensated absences	14,910	-	4,439	10,471	2,618
Net pension liability (LGERS)	52,682	21,093	-	73,775	-
Electric long-term liabilities	283,576	21,093	14,142	290,527	12,310
Business activity long-term liabilities	\$ 8,100,822	\$ 55,963	\$ 397,183	\$ 7,759,602	\$ 400,154

Compensated absences typically have been liquidated in the General Fund.

E. Restrictive Covenants

The Town is required by the USDA to set aside ten percent (10%) of the current year's note payment as restricted cash in a separate account for ten years or until one payment has accrued or the note is paid out. For the fiscal year ended June 30, 2019, the Town has accumulated \$81,274 in this account and it is shown as restricted assets for "USDA Reserve."

F. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2019, consist of the following:

Due from the General Fund to the Electric Fund for general fund operations	\$ 75,639
Due to the General Fund from the Water and Sewer Fund for water and sewer operations	5,689
Due to the Electric Fund from the Water and Sewer Fund for Water / Sewer operations	39,997
Total	\$ 121,325

Town of Hertford
Notes to the Financial Statements

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to / from other funds at June 30, 2019, consist of the following:

From the Electric Fund to the General Fund for internal		
service reimbursement	\$	84,000
Total	\$	84,000

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs.

During the 2019 fiscal year, the Town made a transfer from the Electric Fund of \$84,000 to the General Fund for operating expenses.

G. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 1,739,382	\$ 12,871,485
less: long-term debt	712,400	7,595,617
Net Investment in capital assets	\$ 1,026,982	\$ 5,275,868

H. Fund Balance

The following schedule provides management and citizens with information on the portion of General fund balance that is available for appropriation:

Total fund balance - General	\$ 2,027,305
Less:	
Stabilization by State Statute	287,477
Streets - Powell Bill	257,967
Working Capital / Fund Balance Policy	341,403
Remaining fund balance	\$ 1,140,458

The Town of Hertford has adopted a minimum fund balance policy for the General Fund which instructs management to maintain an available fund balance of 20% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town.

NOTE IV – JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with twenty other local governments, is a member of the North Carolina City Electric Agency (Electric Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities. Each participating government appoints one commissioner to the Electric Agency's governing board. The twenty-one members, who receive power from the Electric Agency, have signed power sales agreements to purchase a specified share of the power generated by the Electric Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2019, were \$2,255,852.

NOTE V – RELATED ORGANIZATIONS

The five-member board of the Town of Hertford Housing Authority is appointed by the Mayor of the Town of Hertford. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Hertford is also disclosed as a related organization in the notes to the financial statements for the Town of Hertford Housing Authority.

NOTE VI – SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE VII – WINFALL SETTLEMENT

On July 20, 2015, the Town of Winfall began making payments to the Town of Hertford as a result of a legal settlement. This settlement was in response to disputes arising from a Wastewater Treatment Contract, dated March 1, 2001, which involved the construction of a waste water treatment plant and the provision of waste water treatment services by the Town of Hertford. According to the settlement, the Town of Winfall shall pay to the Town of Hertford the sum of \$300,000 to be paid in equal monthly installments of \$1,250 over twenty years. The regular monthly payments shall be submitted along with the regular monthly sewer treatment payments made monthly by the Town of Winfall to the Town of Hertford.

Town of Hertford
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years
Schedule 1

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Hertford's proportion of the net pension liability (asset) (%)	0.01457%	0.01598%	0.01412%	0.01769%	0.01635%	0.01630%
Hertford's proportion of the net pension liability (asset) (\$)	\$ 345,650	\$ 244,130	\$ 299,674	\$ 79,391	\$ (96,423)	\$ 196,478
Hertford's covered-employee payroll	\$ 1,012,509	\$ 1,005,643	\$ 918,096	\$ 927,393	\$ 883,934	\$ 958,183
Hertford's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	34.14%	24.28%	32.64%	8.65%	(10.91%)	20.51%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

Town of Hertford
Local Government Employees' Retirement System
Schedule of Contributions
Required Supplementary Information
Last Six Fiscal Years
Schedule 2

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 71,303	\$ 79,077	\$ 76,146	\$ 63,220	\$ 66,561	\$ 63,115
Contributions in relation to the contractually required contribution	71,303	79,077	76,146	63,220	66,561	63,115
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Hertford's covered-employee payroll	\$ 890,142	\$ 1,012,509	\$ 1,005,643	\$ 918,096	\$ 927,393	\$ 883,934
Contributions as a percentage of covered-employee payroll	8.01%	7.81%	7.57%	6.89%	7.18%	7.14%

Town of Hertford
Law Enforcement Officers' Special Separation Allowance
Schedule of Changes in Total Pension Liability
Required Supplementary Information
Schedule 3

	2019	2018	2017
Beginning balance	\$ 170,095	\$ 139,181	\$ 131,324
Service cost	7,058	9,283	11,478
Interest on the total pension liability	5,375	5,372	4,614
Differences between expected and actual experience in the measurement of the total pension liability	(121,384)	6,247	-
Changes of assumptions or other inputs	(2,926)	10,012	(4,093)
Benefit payments			(4,142)
Ending balance of the total pension liability	\$ 58,218	\$ 170,095	\$ 139,181

Town of Hertford

Law Enforcement Officers' Special Separation Allowance

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Required Supplementary Information

Schedule 4

	2019	2018	2017
Total pension liability	\$ 58,218	\$ 170,095	\$ 139,181
Covered payroll	303,942	378,459	363,794
Total pension liability as a percentage of covered payroll	19.15%	44.94%	38.26%

Notes to the schedules:

The Town of Hertford has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB 73 to pay related benefits.

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year Ended June 30, 2019
Schedule 5

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes:			
Taxes		\$ 593,345	
Interest		5,237	
Total	\$ 591,048	598,582	\$ 7,534
Other taxes and licenses:			
Privilege licenses		1,600	
Vehicle tags		29,785	
Total	22,000	31,385	9,385
Unrestricted intergovernmental:			
Local option sales taxes		547,970	
Payment in lieu of taxes		9,037	
Telecommunications sales tax		20,770	
Piped natural gas sales tax		3,895	
Video franchise fee		13,267	
Beer and wine tax		9,143	
ABC Profit Distribution		40,525	
Housing authority reimbursement		(878)	
Total	577,037	643,729	66,692
Restricted intergovernmental:			
Powell Bill allocation		57,001	
Perquimans County Fire Department Contribution		72,500	
Volunteer Fire Department Grant		18,250	
Total	149,250	147,751	(1,499)
Sales and services:			
DMV commissions		66,994	
Cemetery services		7,140	
Refuse services		111,695	
Miscellaneous fees and services		39,429	
Total	232,204	225,258	(6,946)
Investment earnings	1,000	2,241	1,241
Miscellaneous:			
Arrest fees		12,678	
Total	11,911	12,678	767
Total revenues	1,584,450	1,661,624	77,174

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year Ended June 30, 2019
Schedule 5

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government:			
Governing Board:			
Salaries and employee benefits		138	
Operating expenditures		853	
Total	-	991	(991)
Administration:			
Salaries and employee benefits		117,723	
Operating expenditures		206,865	
Capital outlay		16,202	
Total	367,910	340,790	27,120
DMV Operations:			
Salaries and employee benefits		29,740	
Operating expenditures		2,678	
Total	52,078	32,418	19,660
Reimbursement from other funds		(24,353)	
Total	(24,353)	(24,353)	-
Total general government	395,635	349,846	45,789
Public safety:			
Police:			
Salaries and employee benefits		356,403	
Operating expenditures		144,502	
Capital outlay		146,848	
Total	716,187	647,753	68,434
Fire:			
Salaries and employee benefits		2,207	
Operating expenditures		103,774	
Total	109,576	105,981	3,595
Total public safety	825,763	753,734	72,029
Transportation:			
Street and highways:			
Salaries and employee benefits		211,740	
Operating expenditures		131,885	
Capital outlay		249	
Total	367,168	343,874	23,294
Total transportation	367,168	343,874	23,294

Town of Hertford
General Fund Schedule of Revenues, Expenditures, and
Changes in Fund Balance – Budget and Actual
For the Fiscal Year Ended June 30, 2019
Schedule 5

	Budget	Actual	Variance Positive (Negative)
Economic and physical development:			
Main Street program			
Salaries and employee benefits		19,029	
Operating expenditures		1,425	
Total	20,760	20,454	306
Total economic and physical development	20,760	20,454	306
Environmental protection:			
Cemetery:			
Operating expenditures		20,300	
Total	25,500	20,300	5,200
Sanitation:			
Operating expenditures		122,407	
Total	119,953	122,407	(2,454)
Total environmental protection	145,453	142,707	2,746
Debt Service:			
Principal		69,067	
Interest		27,334	
Total debt service	96,643	96,401	242
Total expenditures	1,851,422	1,707,016	144,406
Revenue over (under) expenditures	(266,972)	(45,392)	221,580
OTHER FINANCING SOURCES (USES)			
Transfer from other funds:			
Electric Fund		84,000	
Total other financing sources (uses)	84,000	84,000	-
Fund balance appropriated	182,972	-	(182,972)
Net change in fund balance	\$ -	38,608	\$ 38,608
Fund balances, beginning		1,988,697	
Fund balances, ending		\$ 2,027,305	

Town of Hertford
Electric Fund Schedule of Revenues and
Expenditures – Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019
Schedule 6

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services		\$ 3,139,697	
Other operating revenues		29,481	
Total operating revenues	\$ 3,065,658	3,169,178	\$ 103,520
Nonoperating revenues:			
Interest on investments		17	
Total nonoperating revenues	-	17	17
Total revenues	3,065,658	3,169,195	103,537
Expenditures			
Electric Operations			
Salaries and employee benefits		271,585	
Maintenance and supplies		189,482	
Administrative service		20,465	
Electric power purchases		2,255,852	
Administrative cost from other funds for services		24,353	
Other expenses		57,123	
Insurance		30,848	
Total	2,967,145	2,849,708	117,437
Debt Service			
Principal		9,703	
Interest		9,520	
Total Debt Service	19,400	19,223	177
Total Expenditures	2,986,545	2,868,931	117,614
Revenues over (under) expenditures	79,113	300,264	221,134
Other financing sources (uses):			
Transfer to General Fund	(84,000)	(84,000)	-
Revenues over (under) expenditures and other financing uses	(4,887)	216,264	221,151
Fund balance appropriated	4,887	-	(4,887)
Revenues, other financing sources, and fund balance appropriated over expenditures	\$ -	\$ 216,264	\$ 216,264

Town of Hertford
Electric Fund Schedule of Revenues and
Expenditures – Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019
Schedule 6

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:

(Increase) decrease in accrued vacation	4,439
Increase (decrease) in deferred outflows of resources - pensions	14,851
(Increase) decrease in net pension liability	(21,093)
(Increase) decrease in deferred inflows of resources - pensions	1,035
Bond principal and other debt payments	9,703
Depreciation expense	(69,285)
Total reconciling items	(60,350)
Change in net position	\$ 155,914

Town of Hertford
Water and Sewer Fund Schedule of Revenues and
Expenditures – Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019
Schedule 7

	Budget	Actual	Variance Positive (Negative)
Revenues			
Operating revenues:			
Charges for services		\$ 1,215,744	
Water taps		10,121	
Winfall charges		73,695	
Total operating revenues	\$ 1,439,702	1,299,560	\$ (140,142)
Nonoperating revenues:			
NCDOT reimbursement		97,167	
Miscellaneous revenues		5,551	
Interest on investments		42	
Total nonoperating revenues	10,732	102,760	92,028
Total revenues	1,450,434	1,402,320	(48,114)
Expenditures			
Water and Sewer Operations:			
Salaries and benefits		261,469	
Administrative service		19,650	
Administrative other expenses		115,371	
Vehicle expense		19,039	
Material and supplies		41,158	
Maintenance and repairs		69,079	
Other operating expenses		116,409	
Insurance		21,875	
Utility fees		166,192	
	846,339	830,242	16,097
Debt Service			
Principal		382,980	
Interest		226,260	
Total Debt Service	609,596	609,240	356
Total Expenditures	1,455,935	1,439,482	16,453
Revenues over (under) expenditures	(5,501)	(37,162)	(31,661)
Fund balance appropriated	5,501	-	(5,501)
Revenues and fund balance appropriated over expenditures	\$ -	\$ (37,162)	\$ (37,162)

Town of Hertford
Water and Sewer Fund Schedule of Revenues and
Expenditures – Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2019
Schedule 7

Reconciliation from budgetary basis (modified accrual) to full accrual:

Reconciling items:

(Increase) decrease in accrued vacation	61
Increase (decrease) in deferred outflows of resources - pensions	26,379
(Increase) decrease in net pension liability	(34,870)
(Increase) decrease in deferred inflows of resources - pensions	(96)
Principal retirement	382,980
Depreciation expense	(729,060)
Total reconciling items	(354,606)
Change in net position	\$ (391,768)

Town of Hertford

Golden Leaf Foundation Grant FY2018-117 Fund

Schedule of Revenues and Expenditures – Budget and Actual (Non-GAAP)

From Inception and For the Fiscal Year Ended June 30, 2019

Schedule 8

	Project Authorization	Prior Years	Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental:					
Golden Leaf Foundation FY2018-117	\$ 637,094	\$ 127,419	\$ -	\$ 127,419	\$ (509,675)
Total revenues	637,094	127,419	-	127,419	(509,675)
Expenditures					
Sanitary sewer construction	390,600	-	-	-	390,600
Asphalt replacement	113,994	-	-	-	113,994
Design, permitting, and bid services	50,000	-	20,000	20,000	30,000
Construction observation	65,000	-	2,128	2,128	62,872
Construction administration	17,500	-	5,029	5,029	12,471
Construction contingency	50,459	30,000	130	30,130	20,329
Total expenditures	687,553	30,000	27,287	57,287	630,266
Revenues over (under) expenditures	(50,459)	97,419	(27,287)	70,132	120,591
Other Financing Sources (Uses)					
Town Match	50,459	-	-	-	(50,459)
Total other financing sources (uses)	50,459	-	-	-	(50,459)
Revenues and other sources (uses) over (under) expenditures	\$ -	\$ 97,419	\$ (27,287)	\$ 70,132	\$ 70,132

Town of Hertford
Schedule of Ad Valorem Taxes Receivable
June 30, 2019
Schedule 9

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Credits and Collections	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 588,479	\$ 559,399	\$ 29,080
2017-2018	24,660	13,146	20,110	17,696
2016-2017	15,770	-	4,890	10,880
2015-2016	12,127	-	1,688	10,439
2014-2015	10,017	-	1,218	8,799
2013-2014	9,374	-	596	8,778
2012-2013	9,292	-	248	9,044
2011-2012	7,948	-	-	7,948
2010-2011	7,043	-	314	6,729
2009-2010	5,435	-	402	5,033
2008-2009	5,651	-	5,651	-
	\$ 107,317	\$ 601,625	\$ 594,516	114,426
Less: allowance for uncollectible accounts:				
General Fund				35,850
Ad Valorem taxes receivable - net:				
General Fund			\$	78,576
<u>Reconciliation to revenues</u>				
Ad valorem taxes - General Fund				598,582
Reconciling items:				
Interest collected				(5,237)
Taxes written off				1,171
Subtotal				(4,066)
Total collections and credits			\$	594,516

Town of Hertford
Analysis of Current Tax Levy – Town-Wide Levy
June 30, 2019
Schedule 10

	Town - Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Property taxed at current rate	\$ 120,385,319	0.47	\$ 565,811	\$ 506,875	\$ 58,936
Discoveries					
Public Utilities	4,980,425	0.47	23,408	23,408	-
Other	692,553	0.47	3,255	3,255	-
Abatements	(850,000)	0.47	(3,995)	(3,995)	-
Total property valuation	\$ 125,208,297				
Net levy			588,479	529,543	58,936
Uncollected taxes at June 30, 2019			29,080	29,080	-
Current year's taxes collected			\$ 559,399	\$ 500,463	\$ 58,936
Current levy collection percentage			95.06%	94.51%	100.00%

